10/29/86 C2710-2

GMAC deal reduces leverage from car loans

By Marci Baker

DETROIT — The full impact of General Motors Co.'s low-interest automobile financing program to reduce 1986 inventory surfaced earlier this month in First Boston Corp.'s record-breaking $4 billion sale of securities backed by those loans.

General Motors Acceptance Corp.'s sale of some $4.2 billion of those assets will help reduce the finance subsidiary's increased leverage that came as a result of the low-cost automobile loans.

Meanwhile, the public debt market absorbed an issue of securities whose volume has been matched only by the $4 billion Eurobond offering in September by the United Kingdom.

First Boston breezed through the deal despite light participation by pension fund investors.

Although investment bankers doubt there will be an asset-backed deal of this magnitude again any time soon, the First Boston deal was being touted as adding a new dimension to the new asset-backed market. It not only defined the potential investing community for these types of securities, but also introduced a structure for issuing the securities that had previously only been used in the mortgage arena.

Corporate finance

Patterned after a collateralized mortgage obligation, First Boston set up a special purpose subsidiary, which purchased GMAC's below-market interest rate loans at a discount, then packaged and sold them in a three-tranche offering of securities.

The offering consisted of $2.1 billion of 6.25% notes with an average life of slightly more than a year, $585 million of 6.9% notes with a 2.2-year average life and $1.3 billion of 6.95% notes with a three-year average life.

The $4.2 billion face value of GMAC loans backing the securities was made up of about $2.3 billion of 2.9% loans with a sche-

Continued on page 70

Pensions & Investment Age

Entire contents copyright 1986 by Crain Communications Inc. All rights reserved.

The newspaper of corporate and institutional investing • $4.00 an issue • $80 a year • October 27, 1986

Inside:

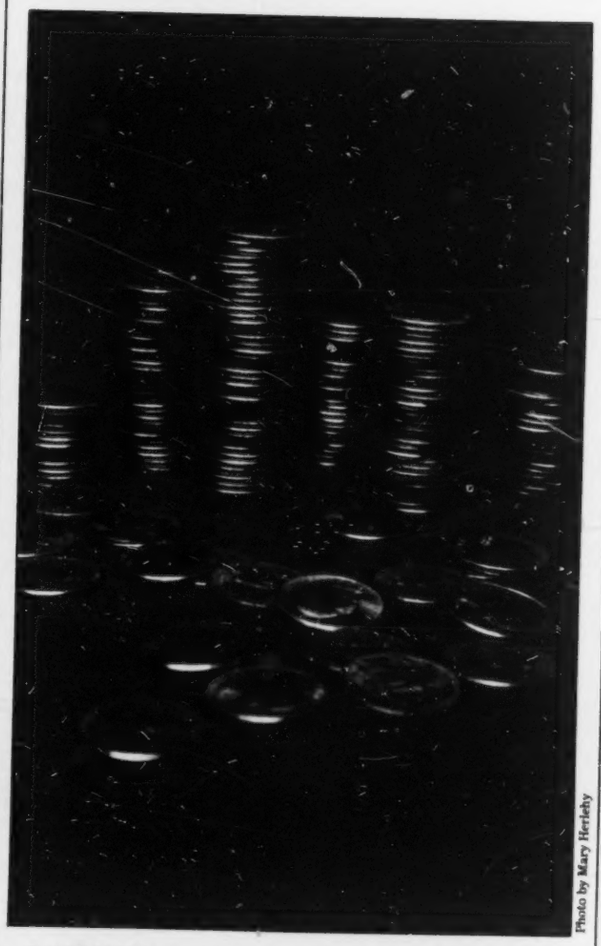


Photo by Mary Herlehy

CASH MANAGEMENT: Citibank, Mellon Bank and Chase Manhattan Bank turned up as the favorites of corporate cash managers, who in a *P&I Age* survey said they turned to those three heavyweights most often for major cash management services — page 17.

5-DIGIT 20814
DUZ
PI 862299 99
STATISTICAL REFERENCE INDEX
4520 EAST-WEST HWY SU 800
MD 20814
stment
on
charts

Sherwin-Williams gets OK to borrow pension assets

By Richard Gillespie

CLEVELAND — Sherwin-Williams Co. — perhaps to finance possible acquisitions or forestall a potential takeover — has received approval from the Department of Labor to borrow up to $65 million from its $314 million pension plans.

At about the same time, the Cleveland building products company shelved plans to terminate two plans and recoup $108.2 million in surplus assets. A company spokeswoman, Dianne B. McCormick, denied the two events were related.

Larry Pitorak, treasurer and chief counsel, declined to shed any light on the reasoning, saying only the request to borrow the assets was looked upon "as an opportunity that was made available under law."

Mr. Pitorak said he did not know whether the letter reversing the termination, which had been approved, was filed before or after Sherwin-Williams received permission to borrow from the pension funds.

The company's move on its pension assets puzzled some analysts, who wondered why a company in good financial health and with $170 million in cash would want to borrow from its pension plan when it could easily obtain money on the open market.

Sherwin-Williams' debt is rated BBB by Standard & Poor's Corp., Baa1 by Moody's Investors Service, 5A2 by Dun & Bradstreet Corp. and 7 by Duff & Phelps Inc., all investment-quality ratings.

The company has embarked on an ambitious expansion program, opening new home-decorating stores, and may be considering an acquisition in the home improvements area.

But several analysts suggested the Labor Department exemption is related to a long-standing fear among the company's executives that the plan, overfunded on a termination basis by $113 million as long ago as Jan. 1, 1985, might attract a corporate raider.

Should such a raider emerge, the company would be in a position to clear out excess funds and use the proceeds to fend off an attack, the analysts said.

"It has been speculation for a while that they would do something with that (overfunding). They feel it makes them more of a takeover target," said a Cleveland-based investment analyst who spoke on condition that he not be identified.

The analyst noted the company already is sitting on $170 million in cash, and is looking for a buyer for its Grey Drug Fair Inc. subsidiary, the sale of which would generate even more cash. The sale of Grey Drug Fair could bring in as much as $200 million, analysts have estimated.

Whether the company is gearing up for an acquisition of some kind, or is trying to reduce temptation for potential raiders, the loan is a highly innovative approach to pension fund investment.

Ms. McCormick, the Sherwin-Williams spokeswoman, pooh-poohed the overfunding/raider explanation as only a theory. "Nothing has been filed that would suggest the company is under threat of a take-

Continued on page 70

Employees awarded surplus plan assets

By Richard Gillespie

In what may be a first in pension fund law, a federal appeals court in Cincinnati has ruled the surplus from a terminated pension plan should go to plan members, not to the company.

As a result, attorneys for International Fruit Products Inc., Covington, Ky., have filed a petition with the U.S. Supreme Court in Washington, seeking a review of the decision. If the Supreme Court agrees to take the case, it would be the first time it has ruled on the thorny question of who owns the assets underlying a defined benefit pension plan.

The International Fruit case arose when the company terminated its $200,000 pension plan in July 1982, distributed $61,000 to plan participants and took back the rest. A number of employees filed a class action suit challenging the company's recouping of the surplus assets.

Judge Carr Rubin in the U.S. District Court for the Southern District of Ohio in Cincinnati upheld the company's reversion, but the employees appealed the decision to the 6th U.S. Circuit Court of Appeals, Cincinnati.

In the 2-1 decision, the appeals court ruled the surplus assets in the International Fruit plan belong to the employees.

U.S. district judges in several cases during the past four years have ruled that irrespective of plan wording to the contrary, surplus assets in a terminated plan belong to the company.

"Although plan documents have been clear (in granting employees

Continued on page 70

L.A. County wins bond exemption

By Steve Hemmerick

LOS ANGELES — Los Angeles County officials could save an estimated $200 million as a result of winning an exemption in the new tax reform law to float pension bonds.

The potential savings would come, with retirement board approval, from the county floating $500 million in tax-exempt bonds, which carry a lower interest rate, and simultaneously buying $700 million in bondlike annuities, which pay a higher interest rate.

Like other municipalities, LA County would issue the bonds to reduce its pension plan's unfunded liability, to

Continued on page 73

New York City Mayor Edward I. Koch, left, and Comptroller Harrison J. Goldin

NYC police fund shifts $1.97 billion

By Trudy Ring and Chuck Paustian

NEW YORK — Mayor Edward I. Koch and Comptroller Harrison J. Goldin set aside their political differences long enough to approve the redistribution of more than $1.97 billion in fixed-income assets of the $4.6 billion New York City Police Department Pension Fund.

The police fund selected 10 new investment managers, reassigned another manager and released two management firms in the reallocation of assets. The decisions are pending final approval of the board of trustees.

Messrs. Koch and Goldin, both trustees for the city's five retirement plans, have disagreed over an appropriate South Africa divestiture policy for the funds. Mr. Goldin has advocated divesting all equity holdings in banks with loans outstanding to South African banks, while Mr. Koch has said this is impractical.

The restructuring of the police fund is part of a program to redistribute all the city funds' fixed-income portfolios.

The New York City Fire Department Pension Fund and the New York City Employees Retirement System are expected to realign their portfolios within the next several months.

The New York City Teachers' Retirement System finished its redistribution during the third quarter (*Pensions & Investment Age*, July 21).

The restructuring process involves dividing the portfolio into four sectors — government-backed assets, mortgage-backed assets, corporate assets and foreign assets — and gives fund officials tight control of investments.

Managers selected for the government-backed sector, and the amounts allocated, are: Mellon Bank, Pittsburgh, Wells Fargo Investment Advisors, San Francisco and The Putnam Advisory Co. Inc., Boston, $300 million each; Fischer, Francis, Trees & Watts Inc., New York, $145 million; and Investment Advisers Inc., Minneapolis, $140 million.

Managers selected for the mortgage-backed sector, allocated $138 million each, are: Pacific Investment Management Co., Newport Beach, Calif.; Miller, Anderson & Sherrerd, Bala Cynwyd, Pa.; and Bear Stearns Asset Management, New York.

Bankers Trust Co. — Investment Management Group, New York, and T. Rowe Price Associates Inc., Baltimore, are the managers selected for the corporate asset sector to run $160 million and $156 million, respectively.

Fiduciary Trust Co. of New York, which had managed a $116 million fixed-income account, was retained by the police fund to manage $59 million in the foreign asset sector.

The assets allocated to the new managers came from the reduction of Fiduciary Trust's account and from terminated accounts managed by Citibank and Lehman Management Co. Inc., both in New York. Citibank had run $1.5 billion for the fund, while Lehman had run $212 million.

Steven Matthews, assistant comptroller for the city, said all the changes were a direct result of the restructuring.

"It does not necessarily indicate dissatisfaction with the performance of the firms currently employed," said Mr. Matthews.

Although Citibank is among those U.S. banks with loans outstanding to South African banks, Mr. Matthews said the termination of the bank's management was not related to the divestiture issue. "The one has nothing to do with the other," he said.

Although Messrs. Koch and Goldin have disagreed over the divestiture issue in the past, it was not a factor in the restructuring, Mr. Matthews said. He said both officials approved the restructuring.

"We have a difference of policy and position on whether the pension funds should maintain its share holdings in Citibank and other banks doing certain business with South Africa," he said, adding, however, that issue did not relate to other contractual arrangements with those institutions.

"Any suggestion that this is based on (the South Africa divestiture issue) is simply not based on fact," Mr. Matthews said.

He also said police union members on the board of trustees indicated they took the money from Citibank because of the inability of police officers to cash their checks at any of the bank's branch offices.

"That thing has been a problem between Citibank and the police union for a number of years," Mr. Matthews said.

"It's a problem outside the purview of any government office. To the extent the union wants to say that was the reason they took the money away, fine.

"As far as we were concerned, Citibank did not get any money because its proposal was not as competitive as other proposals."

Hires 5 managers, drops 2

Morton-Thiokol realigns equity

By Chuck Paustian

CHICAGO — Morton-Thiokol Inc., with about $500 million in pension assets, made a tactical change in its investment strategy, reportedly reallocating between $100 million and $200 million to five new equity managers.

Although Morton-Thiokol officials would not comment on the change, sources confirmed the five managers were hired because their management styles complemented the investment approaches of the three equity managers the company retained.

At least part of the assets allocated to the new managers came from accounts previously run by Fred Alger Management Inc., New York, and Mathers & Co. Inc., Chicago, both released by the company.

The 1986 Money Market Directory listed two other companies — CIGNA Asset Advisers Inc., Hartford, Conn., and The Northern Trust Co., Chicago — as equity managers.

A spokeswoman for Northern Trust said the bank does not manage equity money for Morton-Thiokol, but does invest some assets in a short-term fund. Executives of CIGNA could not be reached for comment.

Northern Trust was retained as master trustee.

The changes were not expected to significantly alter the fund's equity exposure.

As of Dec. 31, 1984, the most recent figures available, the approximate asset mix was 48% equities, 25% general insurance accounts, 17% cash and short-term instruments, 9% pooled bonds and 1% guaranteed investment contracts.

The company's eight equity managers each run between $20 million and $40 million.

The five managers hired, and their investment styles, are: William Blair & Co., Chicago, emerging growth; Hahn Holland & Grossman, Chicago, value-oriented; KR Capital Advisors Inc., New York, Graham and Dodd; Concord Capital Management, San Mateo, Calif., theme manager; and John A. Levin & Co., New York, bottom-up stock selection.

The three firms retained by Morton-Thiokol, and their styles, are Investors Research Corp., Kansas City, Mo., growth; Lynch & Mayer Inc., New York, special situation; and Value Line Asset Management, New York, rotational and value.

"This is the perennial garden approach to management," said one industry source who asked not to be identified.

"You want some things to come up in March, some in June and some in September. I think they did a good job of putting this package together."

Sources said the fund's consultant, Rogers, Casey & Barksdale Inc., Stamford, Conn., aided in the restructuring, but that most of the work was done internally. ■

Bill Quinn is scaling back

By Fred Williams

FORT WORTH — William F. Quinn, assistant treasurer-funds management at American Airlines, doesn't carry as much weight around the international air carrier's corporate headquarters as he once did.

Not that the personable Mr. Quinn has been demoted or downgraded in any way. Indeed, his reputation in the pension industry as an innovator continues to grow.

But Mr. Quinn will not be able to throw his weight around at American any longer because there isn't as much to throw around.

Mr. Quinn, who is 5 feet 7 inches tall, intentionally shed 40 pounds since last year.

He did it the hard way, too. He cut back on his food intake and exercised to the point where he actually started enjoying it. He recently played eight tennis matches in two days, a feat which, while it would punish a normal adult, might cause even Jimmy Connors to pause.

Quinn

Mr. Quinn, who is responsible for overseeing American's $3 billion in pension assets as well as another $1 billion in corporate cash, made up his mind to lose weight and went from 205 pounds in early 1985 to 165 now. In the process, he lost 6 inches from his waistline and had to purchase a new wardrobe to accommodate his new slim, some might say svelte — some might even say skinny — torso.

"It wasn't easy," Mr. Quinn said. But he shared his secrets:

- Cut out all the good foods — including starches, sweets and pasta — and then exercise.
- Eat only fresh vegetables, fish and meats — and exercise.
- Cut out the snacks — and exercise.
- Don't eat before going to bed — and exercise.

"I started getting very active in racquetball and tennis. You'll

Continued on page 69

The *P&I Age* monthly indexes track the changes in the Standard & Poor's 500 stock index, the Russell 3000 stock index, the Ryan Index of fixed-income securities and the Shearson Lehman Government/Corporate bond index.

***P&I Age* September indexes**

	Latest mo.	Year to-date	Trailing 12 mos.
S&P 500	−8.28	12.41	31.76
Russell 3000[1]	−7.7	12.1	31.1
Ryan Index[2]	−1.96	14.68	24.48
Shearson Lehman Gov't./Corp.[2]	−1.25	12.16	20.65

Source: Rogers, Casey and Barksdale Inc.

[1]Frank Russell Co. [2]Fixed income.

Highlights

CASH MANAGEMENT
Computerized services on rise 17

CORPORATE FINANCE
CMOs with floaters are the latest twist 45
Credit downgrades on the upswing 45
Corporate notes 48

INTERNATIONAL
Different criteria apply in hirings 35
'Big Bang' fallout anticipated 35
International update 35

REAL ESTATE
More funds moving into apartment market 27
Real estate prices stay high 27
Wrap-up 28

GENERAL NEWS
Manager transitions often lack planning 4
TIAA-CREF begins new effort 6
Baltimore proceeds with divestiture suit 8
W.H. Reaves tops CDA ranking 10

DEPARTMENTS
Datebook 56
Late news 73
Letters 12
Market beat 58
Money movers 64
Opinion 12
People 42
Washington notebook 54

Vol. 14, No. 23 — Pensions & Investment Age (ISSN 0273-5466) is published every other Monday at 740 Rush St., Chicago, Ill. 60611. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investment Age, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207. Copyright 1986.

Managers find different paths to success

TSA picks strategic asset allocation route

By Joel Chernoff

LOS ANGELES — Using an innovative asset allocation system based on futures contracts, TSA Capital Management has raked in more than $1.6 billion in assets to manage or overlay in just two years of business.

"Strategic asset allocation," an increasingly popular style of management, enables a pension fund to adhere to a long-term asset allocation strategy while making short-term adjustments.

Robert Arnott

In its version, TSA uses futures to enable the underlying portfolio to remain undisturbed, while swiftly shifting exposures to stocks, bonds and cash at a fraction of the cost of trading the actual securities.

In effect, the strategy amounts to a new form of market timing.

While admitting that pension executives have ribbed him for offering market timing under a new name, Robert D. Arnott, TSA's president and chief investment officer, argued that past efforts by other money managers to time the market have been sloppy.

Those managers have done what felt "comfortable" — rarely a sound basis for making an investment decision, he said, in contrast to TSA's highly disciplined and quantitative approach.

"Most plan sponsors themselves are not that involved in asset allocation," said James Eckmann, director-investments and banking for Dayton Hudson Corp., Minneapolis, and a TSA client. "In a sense, I believe (TSA's strategy) gives you more control because you can give one manager the job."

Mr. Arnott left The Boston Co. in the

Continued on page 71

Sarofim leaves oil, travels consumer road

By Fred Williams

HOUSTON — After a loss of about $1 billion and nearly 50 clients, Fayez Sarofim & Co. is making a comeback by moving out of the slumping energy sector and into consumer non-durables.

The legendary Houston money management firm now is generating returns that overshadow the Standard & Poor's 500 stock index.

Its performance was well above the S&P 500 for the two- and three-year periods ended June 30. It's only when returns from more than three years ago are examined that the firm's performance begins to fade.

According to *Pensions & Investment Age*'s 1983 directory of money managers, Sarofim had a total of $8.8 billion under management; $8.4 billion of which was for 227 tax-exempt clients. Those numbers changed to $8.6 billion total and $7.6 billion tax exempt for 191 clients as of the 1984 directory.

The client total fell to 179, according to the 1985 directory, while the firm managed $8.7 billion in total assets and $7.6 billion in tax-exempt assets.

The latest directory has Sarofim's client total on the rise at 184. The amount of assets under management had grown to more than $9 billion as of Jan. 1, of which about $8.3 billion was tax exempt.

Fayez Sarofim, chairman of the board and president, declined to be interviewed for this story. But William K. McGee, senior vice president, said the company has rebounded from the bad old days in 1983, when it lost an estimated $1 billion in business, largely because of the failure to abandon the energy stocks before the market collapsed.

Sarofim no longer carries an above-market weighting in major oil company stocks, even though energy stocks are picking up steam and were the best-performing group during the third quarter.

Mr. McGee said the firm now carries only an 8% to 10% weighting in energy stocks in its $8.9 billion equity portfolio. The firm has a total of $10.8 billion under management. That compares with roughly 40% weighting in the energy sector in 1980.

Continued on page 71

Enron uses surplus for ESOP formation

By Fred Williams

HOUSTON — Battling corporate raiders and taking advantage of tax reform savings, Enron Corp. of Houston will use a $230 million pension asset reversion to purchase a large block of its common stock from a corporate raider for a new employee stock ownership plan.

The stock purchase is a departure from previously announced plans to use the surplus pension assets to reduce corporate indebtedness as a result of the merger between Houston Natural Gas Corp. and InterNorth Inc., Omaha, Neb. Enron is the name of the new corporate entity; it is terminating an InterNorth pension plan.

Enron debt following the merger was estimated at $4.2 billion.

The company will finance the new leveraged ESOP by effecting a tax-free rollover of the $230 million reversion, which will be supplemented with a "tax-advantaged" bank loan of about $105 million.

The new ESOP will purchase 7.4 million shares of Enron common stock from Minneapolis investor Irwin Jacobs and Leucadia National Corp., New York, an investor group.

The purchase was criticized by other investors as caving in to "greenmail;" the company agreed to pay about $47 per share and the stock had been trading around $44 on the New York Stock Exchange.

Mark Koenig, director of pension investments at Enron, had no comment on the greenmail charges. He said one significant reason for the change in plans for the asset reversion is tax reform, "which allows a transfer of assets from a terminated plan to a qualified ESOP to avoid federal income tax and excise taxes."

Mr. Koenig said the rollover also will reduce, by $20 million annually, future corporate contributions to existing employee benefit plans. Total savings to the company from the rollover and reduction in contributions, as well as the deductibility to Enron of dividends paid on common shares owned by the new ESOP, will be approximately $45 million, according to a company spokesman.

InterNorth merged with Houston Natural Gas in July. InterNorth had filed for a spinoff/termination of its two defined benefit plan with assets of approximately $500 million, seeking to recapture the $230 million surplus effective June 30 (*Pensions & Investment Age*, May 12).

The new Enron defined benefit plan was centered around the HNG plan, which has assets of between $75 million and $100 million, said Mr. Koenig.

Other companies have used excess pension assets to establish ESOPs. Bank of New York and Hartmarx Corp., for example, transferred excess assets to ESOPs without terminating existing plans.

Several InterNorth money managers were asked to liquidate their positions following the merger. Some insurance companies with guaranteed investment contracts were carried over to the new plan, Mr. Koenig said.

Terminated managers were Alliance Capital Management, Minneapolis, equities; Citicorp, Houston, equities; Comerica Bank-Detroit, fixed income; Mellon Capital Management, San Francisco, equities; Equitable Life Assurance Society of the United States, New York, real estate; and First National Bank of Boston, real estate. Equitable and FNB Boston were retained as GIC managers.

Hewitt Associates, Houston, HNG's actuary, took over as actuary for the new plan. Towers, Perrin, Forster & Crosby, Philadelphia, was the InterNorth actuary.

In January, Northern Trust Co., Chicago, will become the master trustee for the new plan, replacing State Street Bank & Trust Co., Boston, Mr. Koenig said. Chase Manhattan Bank, New York, was trustee for the InterNorth plan.

Mr. Koenig emphasized the manager terminations were not related to performance "but solely for accumulating cash for repositioning . . . They did a very good job for us."

Annuities have been purchased for participants in the terminated plan from a major insurance carrier, said Mr. Koenig.

He said Enron is "currently

Continued on page 72

Bank management fees still inching up

By Brian Lehrer

The investment management fees of banks and trust companies continue to climb to more competitive levels, although they still are considerably lower than fees charged by investment counselors, a new survey shows.

This trend was especially visible in small banks and trust companies, which raised fees an average of 6% in the past year.

Data from a survey of 175 investment firms by SEI Funds Evaluation Services, Chicago, also showed:

- Large banks and trust companies, those managing more than $3 billion, made only small changes in fees, a dramatic change from last year when they raised fees the most.
- Small counselors, those with less than $1 billion under management, charged the highest fees on balanced and

Continued on page 72

Investment management fees (in basis points)*

	Balanced (fund size ($ mils.))			Equity (fund size ($ mils.))			Fixed (fund size ($ mils.))		
Large counselors (more than $1 billion under management)	$10	$25	$50	$10	$25	$50	$10	$25	$50
Highest	100	100	90	100	100	100	69	56	51
25th quartile	75	65	55	80	70	56	50	43	38
Median	69	60	52	70	60	53	45	37	31
75th quartile	59	50	42	60	52	43	38	34	30
Lowest	45	35	30	45	34	27	25	25	22
Small counselors (less than $1 billion)									
Highest	100	100	100	100	100	100	88	85	70
25th quartile	90	70	60	100	76	64	50	41	37
Median	74	59	53	75	62	55	41	35	32
75th quartile	60	50	43	65	54	50	38	30	28
Lowest	42	29	27	42	29	27	30	26	19
Large banks and trust companies (more than $3 billion)									
Highest	75	60	50	75	60	50	50	47	41
25th quartile	61	51	46	61	52	46	48	36	31
Median	50	44	38	50	46	38	40	32	29
75th quartile	42	34	29	43	38	29	34	25	25
Lowest	32	25	20	32	25	20	25	20	19
Small banks and trust companies (less than $3 billion)									
Highest	75	75	65	100	85	80	75	57	43
25th quartile	60	56	52	60	60	52	45	39	32
Median	52	45	40	52	46	42	39	33	29
75th quartile	45	39	31	48	39	32	29	22	24
Lowest	26	20	18	26	20	18	19	15	15

* 100 basis points equal one percentage point

Source: SEI Funds Evaluation, Wayne, Pa.

Opinion

PBGC needs real aid quickly

A PERMANENT FIX FOR the Pension Benefit Guaranty Corp. cannot be delayed much longer.

With an unfunded liability of $1.7 billion already, the PBGC will find itself in a disastrous situation if The LTV Corp. terminates all of its plans, which have unfunded liabilities of about $2 billion.

Yet no relief for the beleaguered agency is in sight. Congress, which took four years of haggling to raise the insurance premium for single-employer plans to $8.50 per participant, has shown no sign it is even aware of the impending crisis.

And given the four years it took to win the most recent premium increase, it is unrealistic to expect Congress to react quickly to further help the PBGC even when it becomes aware of the danger. Indeed, it may not begin to act until the PBGC is unable to send benefit checks to the beneficiaries of the terminated plans whose liabilities it has assumed.

Only when the members of Congress begin to hear cries from retirees who are not receiving their expected pension checks is it likely to move. Unfortunately there are now no easy and painless solutions to the newest crisis.

If LTV terminates all of its plans and dumps the liabilities onto the PBGC, it would take a premium of $20 per participant to close the gap between the agency's assets and its liabilities.

Unfortunately, raising the premium to $20 might not be a solution. First, Congress is unlikely to go along with such a huge increase, and second, such an increase probably would drive more companies to terminate their defined benefit plans and replace them with defined contribution plans. This would further reduce the premium base and lead inevitably to further premium increases.

A possible solution has four parts to it.

First, in recognition that it established the PBGC without an initial capital infusion, with an arbitrarily established premium that was too low, and has dragged its feet on premium increases ever since, Congress should provide a needed capital infusion now. This capital infusion could be spread over, say, five years.

Second, the PBGC must have a risk-related premium. That is, the greater the unfunded liability of a plan, the higher the premium. And the premium should be increased annually automatically until a safe level of support for the PBGC is reached.

Third, stricter funding standards must be established for plans that are underfunded on a termination basis.

Fourth, corporations must become involved with the PBGC problem. Companies with well-funded defined benefit plans must help devise solutions to the agency's financing problem. It is in their long-term interests for the PBGC to be well funded.

Expand portfolio insurance's use

TRUSTEES OF DEFINED CONTRIBUTION plans should be seriously examining portfolio insurance for their beneficiaries.

Portfolio insurance applied to equity portfolios of defined benefit plans might change the way defined contribution plans are invested, to the long-term benefit of plan members.

Now, when they are allowed to select investments for themselves, members of defined contribution plans usually select fixed-income investments, often short-term investments and guaranteed investment contracts.

This is apparently because they fear the volatility, and the risk of loss, in the stock market.

Portfolio insurance can relieve that fear and encourage employees to put more of their defined contribution plan assets into stocks, which historically have had higher returns than bonds or cash equivalents.

Thus, participants in defined contribution plans might be able to make their retirement assets grow more rapidly than they now are doing.

Portfolio insurance does reduce the return an equity portfolio can earn, so it might lag the index. This would have to be explained to employees, but most understand there is no free lunch.

Where employees are not allowed to select the investment mix, trustees making the choice could be more secure in their equity investments if they were protected by portfolio insurance.

If it continues to work as advertised, portfolio insurance could be a boon for defined contribution plan participants.

Letters to the editor

Manager missing

To the Editor: Geoffrey Morley & Partners Ltd. was omitted from the April 4 directory of international managers.

Geoffrey Morley & Partners Ltd. has assets of $1,650 million under management for 35 clients. It specializes in equity management worldwide with an average asset allocation as of Sept. 30, 1986 of: U.K., 70%; U.S., 13.7%; Japan, 7.6%; Germany, 3.5%; France, 1.7%; Switzerland, 1.2%; Sweden, 0.3%; Australia, 0.2%; and cash, 1.8%.

It has been registered with the SEC since December 1984.

The client contact is Brian Shearing, marketing director, 16 Southampton Place, London, England WC1A 2AJ; 011-441-242-4441.

Brian Shearing
Marketing director
Geoffrey Morley & Partners
London

Beutel, Goodman

To the Editor: I am enclosing the questionnaire on Beutel, Goodman International, an international money manager.

BGI was not a client of ours last year, so we did not receive a questionnaire from *Pensions & Investment Age* for this year's publication. It would very much be appreciated if you could publish this information.

Beutel, Goodman International PLC, 37-39 St. Andrew's Hill, London, England EC4VBY; 011-44-01-489-0218.

Total assets under management March 31 were $68 million, all from one U.S. tax-exempt client. Of that, $51 million was invested globally, with equity assets most heavily committed to Germany, the United States, Japan, the United Kingdom and Australia.

The remaining assets are in U.S. bonds.

Minimum account size for individual management is $10 million.

The investment philosophy is called Base Plus. "Base" investments offer strategic appreciation and diversification in the major debt and equity markets. "Plus" investments are more opportunistic and excess-return oriented in all markets. BGI invests heavily in strong, healthy economies, while underweighting weaker countries and currencies.

The firm has non-U.S. currency hedging capability and has been registered with the Securities and Exchange Commission since 1985.

U.S. and non-U.S. assets under management by the parent organization and affiliates as of March 31 totaled $5 billion.

Client contact is Barbara Greer, Fairfield Capital Associates Inc., 1720 Post Road East, Westport, Conn.; (203) 254-1215.

Barbara Greer
Administrative assistant
Fairfield Capital Associates
Westport, Conn.

D.A. corrects info

To the Editor: The information included in the Sept. 15 real estate investment managers directory contained some inaccurate information:

D.A. Management Inc.
7777 Center Ave. Suite 500
Huntington Beach, Calif. 92647
(714) 891-6080

Total assets as of June 30 were $84 million, of which $74 million were tax exempt; $34 million was in real estate equities and $50 million in mortgages.

As of June 30, D.A. Management's equity holdings for tax-exempt clients had a book value of $20.9 million. Mortgage holdings had book value of $28 million.

Contributions received but not invested accounted for $4.3 million in equity and $22 million in mortgages.

All tax-exempt assets were in direct, separate accounts: 95% is in existing properties and 5% in development properties.

Asset mix by property type (including mortgage and real estate equities) was commercial, 45%; residential, 42%; industrial, 13%. D.A.'s current emphasis is on commercial and industrial properties in Southern California and Arizona.

D.A. has two distinct types of portfolios, one consisting of standard institutional type investments and the second of aggressive venture capital-type real estate transactions.

All properties are managed in-house, with on-site personnel where necessary.

Clients include the San Bernardino County Employees and Orange County Employees.

Daniel M. Ardell, president, is in charge of making property investments and is client contact.

Margaret Sadler
Account manager
Huntington Beach, Calif.

Pensions & Investment Age

EDITOR: Michael J. Clowes *(New York)*
MANAGING EDITOR: Nancy K. Webman *(Chicago)*
ASSISTANT MANAGING EDITOR: Elizabeth Karier *(Chicago)*
N.Y. BUREAU CHIEF: Joel Chernoff
ASSOCIATE EDITORS: Barry B. Burr *(Chicago)*, Marci Baker *(New York)*, Steve Hemmerick *(Los Angeles)*
WASHINGTON EDITOR: Richard J. Gillespie
STAFF REPORTERS: Chuck Paustian *(Chicago)*, Trudy Ring *(Chicago)*, Brad Rudin *(New York)*, Fred Williams *(Dallas)*
COPY EDITOR: Joanne Friedrick
DIRECTORY COORDINATOR: Carol Wiley
EDITORIAL PRODUCTION: Kristina M. Schramm *(Manager)*, Thomas J. Linden *(Asst. Manager)*
EDITORIAL ASSISTANTS: Arline Larson *(Chicago)*, Marlene Givant *(New York)*
CORPORATE ART DIRECTOR: Joe Faraci

PUBLISHER: William T. Bisson Jr. *(New York)*

ADVERTISING SALES DIRECTOR: Daniel S. Dent *(New York)*
ADVERTISING SALES STAFF: *(New York)*: Sarah Michels Strader *(Eastern Adv. Mgr.)*, Yvonne P. Hobson, Jane Howell, Richard Zittle *(Atlantic Mgr.)*
(Chicago): Russ H. Hoefer *(Midwest Mgr.)*, Michael McEvily
Pattis Group, Alex Lilburn, 1800 N. Highland, Hollywood, Calif. 90028 (213/462-2700)
PROMOTION DEPARTMENT: Julie Hunt *(Director)*, Louise Sinnott *(Manager)*
CLASSIFIED SALES: Andrew Claflin 212/210-0234 *(New York)*
CLASSIFIED PRODUCTION: Jackie Henderson 312/649-5280 *(Chicago)*
REPRINT MANAGER & EDITORIAL INDEX SUBSCRIPTIONS: Ulla Rodriguez 212/210-0124
ADVERTISING PRODUCTION MGR. Kathy Knight *(Chicago)*
ASSISTANTS TO SALES STAFF: Susan Montaperto *(New York)*, Kenia Simonette *(New York)*
CIRCULATION DEPARTMENT: Barbara Kisch *(Manager)* 313/446-0478, *(PIPER subscription)* 313/446-0478, Patricia McMikel *(Subscription info.)* 313/446-0421, Carolyn L. Vincent *(Back copy sales)* 313/446-1600

PUBLISHING DIRECTOR: Stephen D. Gilkerson

CRAIN COMMUNICATIONS INC., publisher of Advertising Age, Automotive News, AutoWeek, Business Insurance, Business Marketing, City & State, Crain's Chicago Business, Crain's Cleveland Business, Electronic Media, Modern Healthcare and Monthly Detroit.

G.D. Crain Jr., founder (1885-1973)
Mrs. G.D. Crain, chairman
Keith E. Crain, vice-chairman
S.R. Bernstein, chairman/exec. committee
Rance Crain, president/editorial director
Mary K. Crain, treasurer
Merrilee P. Crain, secretary
William Morrow, senior vp/operations
H.L. Stevenson, corporate editor
Alice Sielaff, corp. marketing manager

Published every other week by Crain Communications, Inc. Offices at 220 E. 42nd St., New York 10017 (212/210-0100); 740 Rush St., Chicago 60611 (312-649-5200); 814 National Press Bldg., Washington, D.C. 20045 (202/662-7200); 6404 Wilshire Blvd., Los Angeles 90048 (213/651-3710); 1 North Park East, Suite 114, 8950 N. Central Expwy., Dallas 75231 (214/692-9848).

$4.00 an issue, $80 a year in the U.S. Add $25 per year for air delivery to Europe and Middle East. Add $10 per year for surface mail to all other foreign countries. Add $30 for air delivery in U.S. and Canada.

WILLIAM STRONG, vp-circulation, JOHN HUFFMAN, fulfillment director. Four weeks notice required for change of address. Address all subscription correspondence to Pensions & Investment Age, 965 Jefferson, Detroit, Mich. 48207. Telex number: 25-4340; Cable address: CRAINCOM. Microfilm copies are available from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, Mich. 48012. Microfiche copies are available from Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Oh. 44691.

Member of Business Publications Audit of Circulation

ABP BPA

Cash Management

Citibank, Mellon, Chase lead in survey

By Barry B. Burr

Citibank, Mellon Bank and Chase Manhattan Bank are the banks most frequently used for major cash management services, a *Pensions & Investment Age* survey of corporate cash managers shows.

In responses to questionnaires asking the cash managers to cite the banks most frequently used for lockbox, cash concentration, disbursement, lending and originating intercorporate payments through the automated clearinghouse, none of the three banks was named consistently in all of the major services.

The varying degree cash managers use the three banks was underscored in three services:

- For lockbox, Pittsburgh-based Mellon was named most often, while its two New York-based money center counterparts placed far out of the top 10.
- For disbursement and for lending, Citibank and Chase were named first and second, respectively, in each service, while Mellon placed, respectively, sixth and fifth.

For the other two major services — concentration and ACH, the three banks were together in the top three.

The survey showed other banks used most frequently overall for the five major services were Morgan Guaranty Trust Co., New York; Bank of America, San Francisco; Wachovia Bank & Trust Co., Winston-Salem, N.C.; Manufacturers Hanover Trust Co., New York; RepublicBank Dallas; First National Bank of Chicago; and Chemical Bank, New York.

Closely trailing the top 10 were NCNB National Bank, Charlotte, N.C., and Texas Commerce Bank, Houston.

The tables on this and following pages show the most used banks in each of the five services as well as their total mentions by the cash managers surveyed.

In addition to the five major services, *P&I Age* surveyed corporate treasury executives on their use of other cash management services — multilateral netting, commercial paper issuing and master note borrowing.

Also, the survey tallied the major cash management services corporations, and their bank providers, added and dropped since the beginning of the year.

The results were compiled from 130 responses to questionnaires *P&I Age* mailed to 500 domestic cash managers in a wide cross-section of corporations.

The responses were aggregated to assure anonymity of the responding corporations; a number of cash managers, however, agreed in follow-up telephone interviews to comment on the banks they use.

Of the respondents, 34% were from the Northeast (about half in New York), 24% from the Midwest, 10% from the Southeast, 15% from the Southwest and 17% from the West.

The survey listed separately Wachovia, First Atlanta, Wells Fargo and Crocker, even though they were involved in combinations during the year.

Wachovia Corp. and First Atlanta Corp., holding companies for the respective banks, jointly formed First Wachovia Corp. Dec. 5, to become parent of both corporations.

Both banks, and their holding companies, continue to exist as separate entities and communicate to clients under their own names, though many of their cash management marketing activities are now handled by First Wachovia Corporate Services Inc.

Wells Fargo Corp. acquired Crocker National Corp. June 1. As a result, Wells Fargo Bank assumed Crocker National Bank's activities.

If the banks had been combined in the survey:

- Wachovia/First Atlanta would have placed fourth with 46 mentions in overall cash management for the five major services. (Wachovia had 39 mentions; First Atlanta, 17.)
- Wells Fargo/Crocker would have tied for 11th place with 30 mentions in overall cash management. (Wells Fargo had 21 mentions; Crocker, nine.)

Of the five major services, the banks used most frequently by the respondents were:

- In lockboxes, Mellon, FNB Chicago, Northern Trust, Wachovia and RepublicBank Dallas.
- In cash concentration, Citibank, Mellon, Chase Manhattan, Chemical Bank and Morgan Guaranty.
- In disbursement, Citibank, Chase, Wachovia, NCNB and Texas Commerce.
- In lending, Citibank, Chase, Morgan Guaranty, Manufacturers Hanover and, tied for fifth, Bankers Trust, Bank of America and Mellon.

In other cash management services, the survey found:

- Nearly half of the responding cash managers use an outside manager to handle some short-term investments of their corporation's cash. In all, 25 of the cash managers reported using outside investment management companies or banks for corporate cash. Many of the corporations use at least three outside investment managers (the questionnaire asked for only each corporation's three major managers).

The most frequently mentioned was Merrill Lynch Capital Markets Inc., by eight cash managers. Others frequently named were Chase, Citicorp, First Boston Corp., Goldman, Sachs & Co. and Salomon Brothers Inc. Each was mentioned by three respondents. Others also often mentioned were Credit Lyonnais, Kidder Peabody & Co. and Mellon.

- Few corporations use multilateral netting, the practice of a corporation's units balancing their foreign currency positions arising from transfer payments among themselves.

Only 17 corporations reported using multilateral netting. In all, they reported using eight different banks. The most frequently named were Chase and Chemical, each cited by five corporate cash managers.

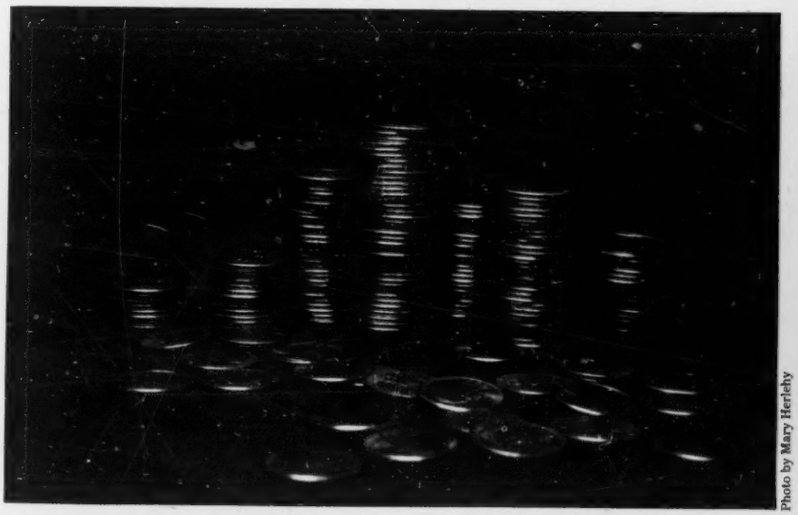


Photo by Mary Herlehy

- About a quarter of the respondents borrow through master notes, short-term instruments placed with bank trust departments. In all, 32 cash managers reported their corporations use master notes.

Citibank was the most often named master note lender, cited by five corporate executives. Chemical and Trust Co. Bank, Atlanta, each was mentioned by three.

Cited twice were Bankers Trust, Chase, MBank, Houston, Manufacturers Hanover and Sovran Bank, Richmond, Va.

- Most of the corporations — 71 respondents to the survey — borrow through commercial paper.

Continued on page 18

Overall cash management services*

Bank	Number of mentions
Citibank	71
Mellon	63
Chase Manhattan	58
Morgan Guaranty	42
Bank of America	39
Wachovia	[illegible]
Manufacturers Hanover	35
RepublicBank Dallas	33
FNB Chicago	32
Chemical Bank	31
NCNB	30
Texas Commerce	30
Citizens & Southern	24
Continental Illinois	24
Northern Trust	24
Mercantile Trust, St. Louis	22
Wells Fargo	21
Bank of New York	20
Bankers Trust	19
Security Pacific	19
FNB Atlanta	17
Harris Trust	15
InterFirst Bank Dallas	15
National Bank of Detroit	15
Sovran	14
Trust Co. Atlanta	14

* Banks most frequently mentioned by corporations surveyed for five key services: lockbox, cash concentration, disbursement, lending and automated clearinghouse.

Source: *Pensions & Investment Age* survey of corporate cash managers.

Payden & Rygel index of short maturity assets*
(for month ended September 30)

	September 1986	Quarter ended 9/30/86	Year to date	12 months ended 9/30/86	Yield level monthly change[a]
	Unannualized total returns				
90-day					
U.S. Treasury bill	0.4314	1.5980	5.2902	7.2812	3
Domestic CD	0.3916	1.6906	5.6649	7.8255	38
Euro $ CD	0.3953	1.7142	5.7424	7.9325	40
180-day					
U.S. Treasury bill	0.3482	1.7326	5.8264	7.8791	22
Domestic CD	0.2871	1.8104	6.0484	8.2742	39
Euro $ CD	0.2907	1.8432	6.1306	8.4151	40
1-year					
U.S. Treasury note	0.1897	2.0564	6.8093	9.3228	30
2-year					
U.S. Treasury note	−0.2939	2.4026	8.4345	12.5550	44

*Figures are unannualized total returns. Year-to-date and 12-month figures linked monthly. 90- and 180-day Treasury bill yield level changes on discount basis.

[a]Basis points.

Source: Payden & Rygel, Los Angeles

Computerized services on rise

By Barry B. Burr

GREENWICH, Conn. — The use of microcomputers, terminal-initiated services and electronic funds transfer by corporations is continuing to grow in most areas of cash management, according to a Greenwich Associates survey.

But the use of automated clearinghouses for corporate trade payables remains small, the survey by the Greenwich, Conn., firm found.

The findings were part of Greenwich's wide-ranging survey of corporate cash managers and treasury executives at corporations with more than $250 million in sales. Some preliminary findings were reported by *Pensions & Investment Age* Sept. 29.

In its survey of about 1,300 large corporations, Greenwich found 96% of the companies receive one or more kinds of computerized cash management information, nearly all of them by a terminal in the cash management executive's office.

Of the major types of information, 84% receive by terminal previous day reports on debits, credits and balances by bank; 64%, reports on wire transfers made within the past 24 hours; 56% current day reports of debits, credits and bank balances; 53%, float detail reports; 51%, lockbox receipts reports; 15%, bank target balances reports; 13%, account analysis statements; 11%, foreign exchange market information; 7%, domestic money market rates; 6% letter of credit status; and 5%,

Continued on page 20

Lockbox

Bank	Number of mentions
Mellon	21
FNB Chicago	19
Northern Trust	17
Wachovia	17
RepublicBank Dallas	15
Continental Illinois	12
Citizens & Southern	11
Texas Commerce	11
Bank of America	10
NCNB	9
Wells Fargo	9

Concentration

Bank	Number of mentions
Citibank	17
Mellon	17
Chase Manhattan	16
Chemical	13
Morgan Guaranty	13
Bank of America	11
FNB Chicago	9
Bankers Trust	7
Manufacturers Hanover	6
RepublicBank Dallas	6

Disbursement

Bank	Number of mentions
Citibank	26
Chase Manhattan	15
Wachovia	14
NCNB	13
Texas Commerce	11
Manufacturers Hanover	10
Mellon	10
Morgan Guaranty	10
Bank of America	9
RepublicBank Dallas	9

ACH for intercorporate payments

Bank	Number of mentions
Mellon	6
Chase Manhattan	5
Chemical	3
Citibank	3
Manufacturers Hanover	3
First Interstate	2
Northern Trust	2
Pittsburgh National	2
Wachovia	2
Wells Fargo	2

Source: *Pensions & Investment Age*

Citibank, Mellon . . .

Continued from page 17

The commercial paper dealer used most by the respondents — some corporations named up to three dealers as their issuers — was Merrill Lynch Money Markets Inc. It is used by 28 corporations in the survey.

Other commercial paper dealers, or primary placement agents, mentioned most often by cash managers were: Goldman, Sachs Money Markets Inc., by 20 corporations; Shearson Lehman Commercial Paper Inc., by 16; First Boston, by 14; Salomon, by seven; Bankers Trust, by five; Bank of America Capital Markets Corp., by three; Paine-Webber Inc., also by three.

Notable among the findings was that no New York bank ranked among the 10 named most often in lockbox.

Chicago had three banks — First Chicago, Northern Trust and Continental Illinois National Bank & Trust Co.

The Southeast had three banks — Wachovia, Citizens & Southern National Bank of Georgia, Atlanta, and NCNB.

Texas had two banks — RepublicBank and Texas Commerce — as did California (Bank of America and Wells Fargo).

Mellon was the only Northeastern representative among the 10 top banks mentioned in lockbox.

If combined in the survey, Wachovia/First would have placed first in lockbox with 23 mentions (17 for Wachovia, six for First Atlanta) and Wells Fargo/Crocker would have tied for ninth with 10 mentions (nine for Wells Fargo and one for Crocker).

In cash concentration, seven New York banks placed among the top 10. In disbursements, the four major Chicago banks — First Chicago, Continental, Harris Trust and Savings Bank and Northern Trust — ranked far outside the top 10.

In lending, New York banks again dominated, placing seven in the top 10.

In cash concentration, if combined, Wachovia/First Atlanta would have tied for seventh with nine mentions (five for Wachovia and four for First Atlanta) and Wells Fargo/Crocker would have tied ninth with seven mentions (three for Wells and four for Crocker).

In disbursement, if combined, Wachovia/First Atlanta would have placed second with 22 mentions (14 for Wachovia, eight for First Atlanta) and Wells Fargo/Crocker would have tied for ninth with nine mentions (six for Wells, three for Crocker).

In lending and ACH, neither Wachovia/First Atlanta nor Wells Fargo/Crocker would have changed in ranking.

In interviews, cash management consultants said *P&I Age*'s survey results generally confirm cash management market practices.

Richard J. Poje, principal, Treasury Strategies Inc., Chicago, and Larry A. Marks, president, Phoenix-Hecht Inc., Northfield, Ill., said they would expect no New York banks to appear high in lockbox.

Both said mailing times and availability aren't as good there.

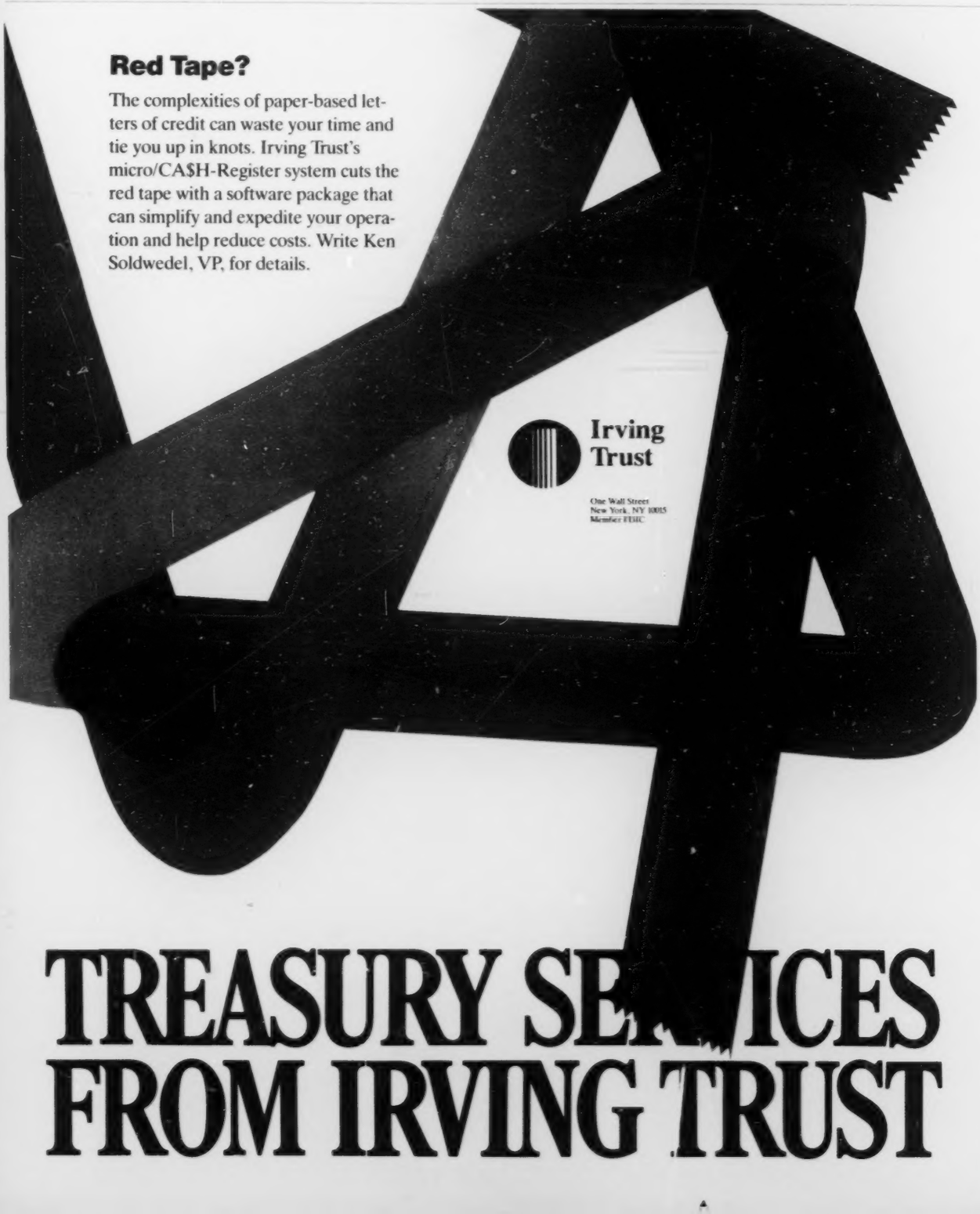
Mr. Poje added, "New York banks have not traditionally pushed hard their lockbox product. I have a sense they want to change," he added.

"My sense is you will see them emerge as major lockbox players," perhaps operating from outlaying locations. He said he knows of no specific program any New York bank has for increasing its presence in lockbox.

Of the top 10 in lockbox, Mr. Poje added, "Every one is a very significant lockbox bank." But he said he wouldn't have named them in that order and would have included Philadelphia National Bank and Harris Trust in the top 10. He said he was surprised NCNB ranked in the top 10.

On cash concentration, both Messrs. Poje and Marks said it was logical most of the oftenmentioned banks are in New York.

"The money typically concentrates in the money centers," Mr. Poje said. "The money in the United States tends to float to


Red Tape?
The complexities of paper-based letters of credit can waste your time and tie you up in knots. Irving Trust's micro/CA$H-Register system cuts the red tape with a software package that can simplify and expedite your operation and help reduce costs. Write Ken Soldwedel, VP, for details.
Irving Trust
One Wall Street
New York, NY 10015
Member FDIC
TREASURY SERVICES
FROM IRVING TRUST

Citibank . . .

Continued from page 18
New York City."

New York has the biggest money market for investing, while for borrowing, corporations tend to pay down loans through New York banks, he added.

In disbursement, Mr. Poje said, "My guts would have told me Wachovia would have been on top" through its Winston-Salem location. "I'm surprised Morgan (Guaranty) isn't up higher," he added.

He noted the money center banks disbursement from outlaying locations, such as Citibank from Wilmington, Del.

He surmised that no Chicago banks appear in the top 10 in disbursements because they "have little choice in locating control points" because of Illinois' banking regulation.

In lending, both Messrs. Poje and Marks attributed the predominance of New York banks to traditional relationships and the prevalance of corporations based there. Mr. Poje added, "You'd naturally think First Chicago would be in (the top 10) because of the size of its assets."

Among treasury executives who completed the questionnaire and agreed to comment, E.J. Goedeker, manager-banking and finance/investments, Monsanto Co., St. Louis, said he wasn't surprised Wachovia and Northern Trust ranked near the top in lockbox.

He praised their speedy postal delivery and clearing times. Monsanto uses Wachovia's Charlotte, N.C., location.

Lending

Bank	Number of mentions
Citibank	21
Chase Manhattan	18
Morgan Guaranty	18
Manufacturers Hanover	16
Bankers Trust	9
Bank of America	9
Mellon	9
Chemical	7
Security Pacific	6
Barclays	5
Continental Illinois	5
National Bank of Detroit	5

Source: *Pensions & Investment Age*

He said Monsanto wanted banks in those areas because of its customer locations and picked those two in large part because of efficiency of their operations over other banks.

Gary G. Pearson, assistant treasurer, NBI Inc., Boulder, Colo., said his company, which now employs three banks at three sites for lockbox, initially set up its lockbox in 1983 in Chicago with Northern Trust.

"A study we did showed Chicago was far and away the optimal site for a one-lockbox network," he said.

Since then, it added Wachovia and First Interstate Bank of California, Los Angeles.

In each of the three cases, he said, NBI considered other banks within the respective states — First Chicago, NCNB and Security Pacific National Bank & Trust Co., Los Angeles.

The major reason for selecting banks was quality of operations and availability of funds. Pric "was a consideration," he said. " look at that, but that wasn't th overriding factor."

But between the Chicago banks Mr. Pearson said, "pricing was factor."

He said First Chicago was mor expensive than Northern.

In addition, he said, NBI chos Northern because the bank al ready had automated its lockbo operation, while First Chicag was just becoming more auto mated.

Services . . .

Continued from page 20
from compensating balances t fees.

In particular, the survey found that among corporate cash management changes: 38% began using microcomputers; 35% instituted cost reviews; 33% switched to fees from compensating balances; 29% increased services they use; 18% consolidated services with their most important lending bank; 7% consolidated services with banks other than their most important lending bank; 6% decreased services they use; and 5% began using lockboxes.

Of the most important reasons for choosing their banks, the survey found that among the corporations: 80% need a bank in region; 78% have a long-term relationship; 60% use their major credit provider; 55% value specialist expertise and operations quality; 52% want willingness to customize services; 46% like improvements; 45% pick competitive pricing; 25% prefer new product innovation; 25% chose better clearing schedules; and 13% cited microcomputer expertise.

When
you're looking for
cash management
solutions,
look for a perfect fit.

Nothing can trip you up like a cash management system that doesn't fit.

So before Bankers Trust suggests solutions, we walk in your shoes for a while. Only then do we go to work.

That's how we went about creating a controlled disbursement system for a major West Coast construction company with projects scattered across the country, even in Hawaii.

The company had just been restructured. Cash was tight. Every morning, the treasurer had to know what to borrow for the day. And what each project's cash outlays were. The projects needed their own information. Especially since each one kept its own books.

Our Global Operating and Information Services team stepped in. We set up a combination of main accounts and sub-accounts that gives the treasurer both a corporate cash overview and specifics on each project—first thing every morning. So he knows what to borrow or what debt to pay.

The sub-accounts give the projects what they need—timely information.

A happy ending indeed—
and one that's no fairy tale.

Bankers Trust Company
Cash management, worldwide.

U.S. market lags for third quarter

NEW YORK — The equity markets of Mexico, Hong Kong, Japan and Spain produced the best local currency returns in the third quarter, while those in the United States and the United Kingdom posted the poorest returns, according to Wood, Mackenzie & Co. Inc., New York.

The United States had the poorest return — −7% — in dollar terms during the third quarter.

The U.K. market had the second worst performance, returning only −5.7% in sterling, compared with the Morgan Stanley Europe Australia Far East index's 22.5% for the third quarter.

The winning local currency equity returns were 79% for Mexico, 20.9% for Hong Kong, 19.2% for Japan and 13% for Spain.

In Mexico's market, building materials and non-ferrous metals were top-performing sectors, gaining more than 100% each.

In Japan, utility and financial services sectors excelled, while chemicals, merchandising companies and banks lagged.

Hong Kong's real estate sector was its top performer, accounting for 2.5 percentage points of the index gain. Conversely, the banks reduced the gain by 1.75 points.

In Spain, the banking sector performed strongly, accounting for nearly nine percentage points of the index gain.

The EAFE's return for the three months was 15.6% in dollar terms.

Local currency bond market returns generally were unexciting, with the Belgian market performing best, at 4.4%. Weakest performances included the United Kingdom, −6.8%, and Australia, −6%.

On a currency-adjusted basis, the Continent and the Japanese market gave the best bond market

Corporate Finance

Credit downgrades are on the upswing

By Brad Rudin

More corporations suffered credit downgrades at the hands of Moody's Investors Service during the first three quarters of this year than during all of 1985, a development rating agency officials blamed on takeovers and troubles in basic industries.

Standard & Poor's Corp., New York, downgraded 264 corporations for the first three quarters of 1986 compared with 272 for all of last year.

Wall Street analysts, saying the two New York agencies were preoccupied with leverage, took exception to the wave of lowered ratings.

"A more rigorous analysis should reveal that certain companies will be big winners using leverage and certain companies won't," said Mariel Clemensen, manager of the taxable fixed-income research group at Donaldson, Lufkin & Jenrette Inc.

"To paint them all with the same brush, downgrade them all and trade them all like double Bs, provides a wonderful opportunity for those of us are willing to look at the situation much more rigorously," she said.

William J. Honan, a corporate bond strategist at Prudential-Bache Securities Inc., also wondered whether the rating agencies are overreacting to leverage. "At times, yes, they do shoot from the hip. I don't think at times they basically look at earnings, the power of the entity to pay down quickly the debt load."

Moody's downgraded 191 corporations and Standard & Poor's, 236, during the first three quarters of 1986. Downgrades accounted for 60% of Moody's rating changes and 70% of Standard & Poor's.

First-quarter rating changes by Moody's downgraded $63.3 billion in debt, but the volume fell to $33.5 billion in the second quarter. Third-quarter changes by Moody's lowered ratings for $35 billion, for $132 billion total in the first three quarters. Standard & Poor's downgrades totaled $128 billion for the first three quarters; $22 billion in the first quarter, $58 billion in the second; $48 billion in the third.

At Duff & Phelps Inc., Chicago, the 71 downgrades for the first three quarters accounted for 61% of the total changes made by the agency.

Fitch Investors Service, New York, lowered the same number of corporate debt ratings as it boosted, 44. Data about Fitch comes from *Pensions & Investment Age*'s taily of rating actions listed in the agency's monthly registers. The other agencies supplied their statistics.

The deterioration in credit ratings continues a trend that began after World War II and accelerated at the start of the 1980s. For example, downgrades accounted for 79% of Standard & Poor's industrial sector rating actions in 1985, compared with 59% in 1981.

Rating agency analysts

Continued on page 46

The latest financing twist

Issuers, investors interested in CMOs with floaters

By Marci Baker

A new avenue for mortgage-backed financing is emerging as an increasing number of Wall Street firms and issuers have launched collateralized mortgage obligations with floating-rate tranches.

Since Shearson Lehman Brothers debuted the instrument a month ago in a $150 million CMO, the volume of CMO deals with floaters has climbed to almost $2.5 billion. Just more than $1 billion of those securities represent variable-rate tranches.

Overall, the issues were met with steady interest from investors, with the shorter-term floating-rate tranches bought by new players in the CMO market.

"Clearly the product has been well received from both issuers and investors," said Mark Burton, a vice president at Shearson Lehman, which is offering its CMO floaters under the trademarked name FIRSTS — floating interest rate short tranche securities.

Shearson followed up its first deal with a $120 million CMO with floaters for Centex Acceptance Corp., Dallas, and more recently with a $107.6 million deal for Guaranteed Mortgage Corp., Detroit, and a $183 million offering by Ryland Acceptance Corp., Columbia, Md.

First Boston Corp., Salomon Brothers Inc. and Merrill Lynch Capital Markets have followed Shearson into the market with their own deals.

The emergence of the new security and a tightening of spreads are responsible for much of the surge in CMO volume in past weeks.

CMO volume totaled $3.8 billion for the first half of October, according to IDD Information Services. Almost one-third of that represented deals with variable-rate tranches.

Although Wall Street firms are introducing their own nuances to the security, the general structure of the new CMOs are similar:

The deals are structured in three- or four-tranche CMOs, with the interest rate on the initial short-term tranche pegged to the London interbank offered rate and capped at specified levels.

The expected average lives of the short-term, floating-rate tranches ranged from 1½ to almost five years.

For the issuer, the new financing vehicle provides cheaper financing in that the initial floating-rate tranche carries rates substantially lower than they would if those tranches were fixed.

Also, the floating-rate tranche, because it moves in tandem with interest rates, acts as a hedge against the behavior of residuals for traditional fixed-rate vehicles.

This was one key motivation behind Centex Acceptance's $120 million CMO offering in September.

The deal included $37 million of CMO floaters as the first of the four-class offering. Underwritten by Shearson Lehman, the securities have an expected average life of 2.8 years and will pay interest quarterly at just more than 31 basis points over LIBOR.

Although Centex will keep the leftover cash flows created from the payment stream of the underlying Government National Mortgage Association collateral, the company doesn't consider itself in the business of investing. "What we do is build homes. So reducing the volatility of the residuals was a large benefit to us," said Steven Craig, vice president of Centex.

The issuer shaved more than 100 basis points off the cost of financing by tapping the floating- rather than fixed-rate structure in the first tranche of the deal.

Floating-rate CMOs promise to broaden the list of investors who buy mortgage-backed securities.

The recent offerings generated interest from short-term trust funds, which typically have not bought CMO paper, said Jeffrey Kronthal, a managing director at Salomon Brothers, which sold $164.5 million of floating-rate securities in a $500 million four-tranche CMO in late September.

Also buying the floaters were some overseas investors and some banks. Thriftsso far have shown limited interest.

Sales of the floating-rate securities have been buoyed by intense demand recently for short-term paper, said Mr. Kronthal.

Indeed, the demand was also evident with Detroit-based General Motors Acceptance Corp.'s mammoth offering of short-term securities backed by automobile receivables, one First Boston banker noted. The deal at its originally scheduled $3.2 billion was the second largest public sale of securities. It was ultimately increased to $4 billion to meet demand.

Wall Street has been focusing more attention on the equity in creating new wrinkles in mortgage securities, a development that some say has come as a result of the poor performance that CMO residuals suffered at the hands of the bond rally earlier this year.

For traditional fixed-rate CMOs, the equity offers strong

Continued on page 49

New issues of corporate securities

Sept. 29 — Oct. 10, 1986

Issue date	Company	Amount ($ mil.)	Type of security	Offering price Debt (%) Share ($)	Gross spread as % offer price	Where traded (to list)	Managers
Debt							
9/30	Colt Industries	550.00	Sr. Sub. Deb.	99.50%	3.015	NY	Morgan Stanley/Drexel Burnham Lambert
10/3	ML Trust II	500.00	FNMA CMO	100.00%	.500	OTC	Merrill Lynch
10/7	El Paso Funding Corp.	311.30	Lease Bond	100.00%	.875	OTC	PaineWebber/Smith Barney, Harris Upham/Drexel Burnham Lambert
10/7	International Bank for Reconstruction	300.00	Bonds	100.00%	.875	NY	First Boston/Goldman, Sachs/Merrill Lynch/Salomon/Morgan Stanley
10/10	U S WEST Capital Funding	275.00	Gtd. Notes	99.00%	.657	LUX	Salomon/Goldman, Sachs/Merrill Lynch/Shearson Lehman
10/6	CMO Trust 10	272.90	FNMA CMO	99.88%	.501	OTC	Salomon
10/7	Shell Oil Co.	250.00	Notes	99.75%	.627	OTC	First Boston/Salomon
10/1	The Bank of New York Co.	225.00	Notes	100.00%	.250	OTC	Goldman, Sachs
10/3	Santa Barbara Funding I	219.83	FNMA CMO	99.91%	.576	OTC	First Boston
10/2	New World Pictures	215.00	Sub. S.F. Deb.	97.00%	2.191	OTC	L.F. Rothschild, Unterberg, Towbin
Common Stock							
10/9	UAL Inc.	232.00		$58.00	2.24	NY/MW/PC	Morgan Stanley/Merrill Lynch
10/10	Hotel Investors Trust	66.70		$21.50	6.00	NY	Merrill Lynch/Shearson Lehman/Alex. Brown
10/9	Perkins Family Restaurants	65.60		$13.00	7.00	IPO (NY)	Drexel Burnham Lambert/Dain Bosworth/Moseley/Sutro & Co.
10/3	Airlease Ltd.	61.50		$20.50	7.17	IPO (NY)	Dean Witter Reynolds/Smith Barney, Harris Upham/Tucker, Anthony
10/2	King World Productions	46.40		$14.00	4.29	NY	PaineWebber
10/3	Fieldcrest Cannon	44.50		$31.75	3.46	NY	Kidder Peabody
10/2	Armor All Products Corp.	43.80		$12.50	6.56	IPO	Morgan Stanley
10/3	Land's End	42.00		$30.00	6.00	IPO	Kidder Peabody
10/2	Heritage-NIS Bank for Savings	39.00		$9.00	6.44	IPO	PaineWebber/Merrill Lynch
10/8	James Madison	27.50		$11.00	6.82	IPO (AM)	Dean Witter Reynolds
10/2	Charming Shoppes	27.50		$27.50	3.49	OTC	Shearson Lehman/Alex. Brown/Montgomery Securities

Source: Securities Data Co., New York

Sr. sub. deb: Senior subordinated debentures
FNMA CMO: FNMA-backed collateralized mortgage obligation
Gtd. notes: Guaranteed notes
Sub. s.f. deb.: Subordinated sinking fund debentures

NY: New York Stock Exchange
OTC: Over the Counter
IPO: Initial Public Offering
AM: American Stock Exchange
LUX: Luxembourg Stock Exchange
MW: Midwest Stock Exchange
PC: Pacific Stock Exchange

Downgrades . . .

Continued from page 45

offered gloomy predictions about the future quality of corporate debt.

"Overall, it is Moody's view that credit rating downgrades on corporations and financial institutions will continue to outnumber upgrades for the next two years — although utility ratings will rise," said Harold H. Goldberg, chairman of Moody's corporate rating committee.

"The negative trend will reflect the impact of international trade imbalances on various domestic manufacturing sectors and difficulties associated with the hard-pressed basic industry sectors," Mr. Goldberg said in a statement announcing the downgrade statistics.

Linking deteriorated credit to corporate takeovers, Mr. Goldberg predicted continued restructurings. Downward movements in stock prices and interest rates, as well as the drive toward diversification, are the forces encouraging mergers and acquisitions, according to the Moody's statement.

Restructurings, which accounted for 16% of the corporate downgrades for the first three quarters of this year, made up 33% of the lowered rating in 1985, Moody's reported. International Paper Co., Colt Industries, Kiewit Continental and Container Corp. of America were cited by Moody's as examples of credit downgrades resulting from corporate restructurings.

The credit outlook would be better were it not for corporate restructurings, said Mr. Honan of Prudential-Bache. "The bottom line to me is that if you measured straight credit, and ignored (leveraged and other buy-outs), you'd have to say the basic credit trend is upward in the aggregate over the last year or so."

Merger and acquisition activity will continue at a quick pace, encouraged by the lure of already established earning streams, said Kathryn Rudie Harrigan, a professor at the Columbia University graduate school of business in New York. "When you are looking for a quick fix, what you do is buy something."

Officials at Duff & Phelps and Standard & Poor's share Mr. Goldberg's concerns about the effects of mergers and acquisitions.

"All these takeovers, tender offers and the battle to prevent them have resulted in the substantial deterioration of credit quality," said William A. Cornish, co-chairman of Duff & Phelps' credit rating committee.

The push by some companies to broaden their earnings stream carries some troubling implications, said Solomon B. Samson, a senior vice president at Standard & Poor's.

"Now that some of these companies are recognizing themselves that they have problems, they are taking steps, which, on the one hand, may be positive in the sense they are considering diversification and getting into other areas," Mr. Samson said. "But it involves an increase in debt until . . . they can successfully bring these operations into the fold."

A Standard & Poor's report published this year offers a skeptical view of those who pay "high premiums in the pursuit of perceived synergies." Experience, the report said, shows "that in most cases, the expected benefits are elusive."

Defensive measures taken in response to a takeover effort also undermine corporate credit quality, the Standard & Poor's report said, noting that recapitalization strategies often rely upon the replacement of equity with debt.

Mr. Samson cited Carl Icahn's bid to acquire USX Corp. as an example of a takeover that would likely result in the deterioration of credit. Either Mr. Icahn will win and the company will be transformed into a more risky enterprise, or "the company will be successful in defending itself and in the process end up being more risky from a bondholder perspective," Mr. Samson said.

Easier access to the capital markets stands as another factor in the deterioration of corporate credit ratings, the Standard & Poor's report said. "Companies are encouraged to be more aggressive, both financially and operationally, by the easy availability of debt capital." ■

Corporate credit rating changes*

	First three quarters - 1986		1985	
	upgrades	downgrades	upgrades	downgrades
Duff & Phelps†	47	72	53	116
Fitch	44	44	40	58
Moody's	126	191	124	153
Standard & Poor's†	113	264	125	272

* Measures changes by company, not by issue.
† Reflects long-term debt only.
Sources: Figures derived from data provided by the agencies.

Equitable Group and Health Insurance Company

a division of

The Equitable Life Assurance Society of the United States

and the

Health Plans Division

of

Hospital Corporation of America

have entered into a joint venture to be called

EQUICOR
Equitable HCA Corporation

The undersigned acted as financial advisor to The Equitable Life Assurance Society of the United States in this transaction.

MORGAN STANLEY & CO.
Incorporated

October 1986

Pensions & Investment Age's Datebook section includes a listing of upcoming events in corporate finance.

If you are sponsoring a conference or meeting focusing on a corporate finance and wish to have it listed, send the information to Arline Larson, *Pensions & Investment Age*, 740 N. Rush St., Chicago, Ill. 60611; (312) 649-5407.

Bank fees . . .

Continued from page 3

equity accounts.

• Large counselors, those managing more than $3 billion, decreased balanced and equity account fees slightly more than 1%, the first time a manager has decreased its fees since the survey's inception five years ago.

Banks traditionally have charged lower rates than investment counselors to nurture client relationships in other areas, like commercial banking, said Mary Ann Buck, manager search analyst for SEI.

But the fee gaps have been closing in recent years as banks began operating trusts as profit-and-loss centers.

"Banks have also realized that in order to keep good people, they are going to have to pay good salaries," Ms. Buck said. "So they are trying to make their salaries comparable to investment counselors."

Young D. Chin, vice president at Harris Trust and Savings Bank, Chicago, said banks have channeled their investment strategies toward more high-risk ventures, which results in higher fees.

"Banks are increasingly becoming more aggressive and innovative in investment management," he said. "I think the gaps (in fees) will continue to close."

SEI surveyed the fees of four groups of money managers (large and small investment counselors and banks and trust companies), for three types of portfolios (balanced, equity and fixed income) and for four account sizes ($5 million, $10 million, $25 million and $50 million).

The managers base rates on the percentage of assets managed and quote fees in basis points; 100 basis points equals one percentage point.

For example, large banks and trust companies averaged 46 basis points for equity accounts, as opposed to 44 basis points last year, while fees for balanced accounts remained constant.

Small banks and trust companies' balanced and equity fees now average 48 and 49 basis points, respectively, although their fixed-income fees are almost 6% lower than large banks.

Large banks and trust companies charge lower fees because they offer many passive products, whereas small banks and trust companies engage in more active management.

"As a general rule, index-based (passive) products are less expensive," Mr. Chin said. "Small banks offer little or no passive products."

Small investment counselors charge the highest fees of the manager types. Their balanced and equity fees average 67 and 83 basis points, respectively, approximately 45% higher than the fees of large banks and trust companies.

"Smaller counselors are often looking for a limited account load," said Paul Berg, president of Berg Fiduciary Consultants, Port Chester, N.Y. "So they have a pricing strategy where they charge relatively high prices that are not negotiable."

Mr. Berg said many small counselors also are specialty managers that charge a premium for a product that is actively managed with a good deal of expertise.

Price negotiating plays a large role in large counselors' client relationships and is a possible reason for the slight decline in large counselors' fees, Mr. Berg said.

"Large counselors manage a lot of big public pension funds," he said. "Many managers will give 10% to 20% discounts to these customers."

Fees for balanced and equity accounts traditionally have been much higher than fees for fixed-income accounts. That's because fixed-income management historically has been passive and sponsors are unwilling to pay high fees for this type of strategy, Ms. Buck said.

"In the last five years, there has been more active management of these fixed-income accounts," Ms. Buck said, "but sponsors are still hesitant."

Fees for all three types of accounts increased from last year, but balanced and equity fees remained roughly 30% higher than fixed-income fees. •

Enron uses . . .

Continued from page 3

evaluating exactly which types of investments and which managers it will use in the new defined benefit plan."

Delaware Investment Advisors, Philadelphia, an equity manager, and Pacific Investment Management Co., Newport Beach, Calif., a bond manager, will be retained from the InterNorth plan as part of the new Enron stable of managers, he said.

In a prepared statement, Kenneth L. Lay, Enron's chairman and chief executive officer, said the board action setting up the ESOP and the stock purchase from the two corporate raiders "is part of an ongoing asset restructuring program designed to increase shareholder value. The decisions by the board of directors . . . reflect its conclusion that the best interests of the company and its stockholders will be served by the continuation of Enron as an independent company."

That comment drew immediate fire from T. Boone Pickens Jr., chairman of the United Shareholders Association and himself a recognized corporate raider, who said the Enron decision was not in the best interests of shareholders.

In a statement, Mr. Pickens said Enron shareholders received "a $400 million double whammy" as a result of the company's stock buyback. He said the $230 million asset reversion belonged to shareholders. The "greenmail announcement" caused the price of Enron stock to drop to about $40, reducing the company's market value about $180 million, he said.

"Greenmail is a symptom of weak management, and Enron's executives have folded in a big way," Mr. Pickens said.

Not all institutional holders of Enron stock felt the action was detrimental.

Dave Olsan, portfolio manager and analyst at M.D. Sass Investors Services, New York, which holds about 1 million shares of Enron, said the stock "is still a very good one to hold or to buy."

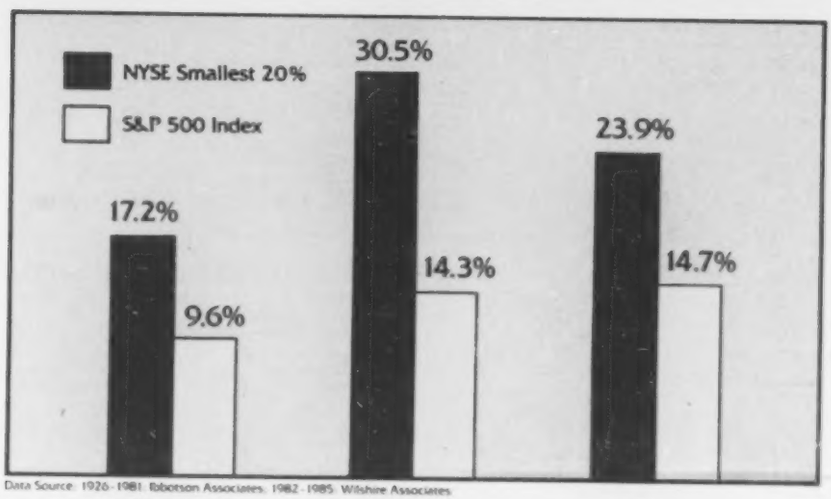
He said the tax savings to the company through establishing the ESOP and using dividends from the stock to repay the $105 million loan would help the company's cash flow.

"This whole transaction doesn't change anything for us; it may lift shareholder values by 50 cents to $1 because of the tax considerations of the transaction," said Mr. Olsan.

He said the Enron balance sheet already was highly leveraged and "I sort of wonder what (Mr.) Jacobs and Leucadia hoped to accomplish, anyway.

"Yes it is greenmail. I'm not really teed off about it, but I'm sorry that they had to pay it. I've seen these raiders operate before and what they really want is to bully the management and get in their hair and try to mess them

Check this Record!



Annualized Returns for Periods Ending 12/31/85

What about *your* fund?

AT LAST! Someone has come up with the ideal combination for pension plan equity investing . . . the General American *Dual Index Fund* concept. Combine the rewards of investing in small companies with the experience of the stock market as a whole. General American is proud to offer Equity I, an index fund that tracks the S&P 500, and Equity II, a companion index fund that tracks the smallest 20% of NYSE-listed stocks. Invest with the *assurance* of PREDICTABILITY of results . . . matching the indices. A unique combination that makes sense for *all* equity investors.

General American

The Investor's Choice

For details please contact:
Ron Drury, Vice President
General American
700 Market St., St. Louis, MO 63101
(314) 444-0778

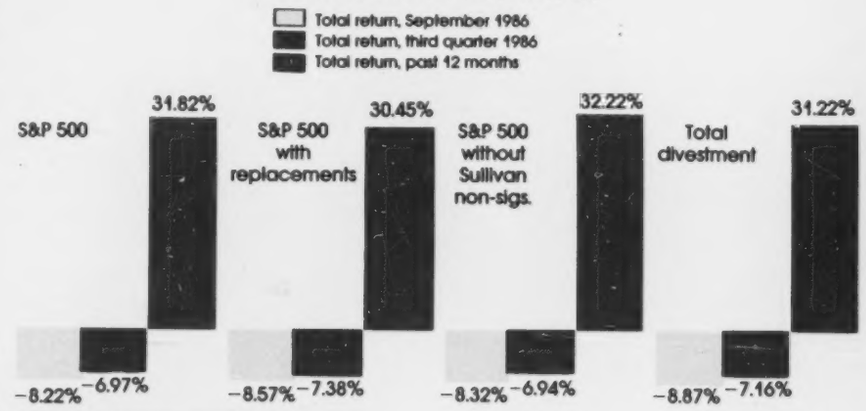
Statistically speaking

The Statistically Speaking page offers an at-a-glance look at statistics for the latest quarter.

The Wilshire South Africa Free Index, Mercer-Meidinger bullet GIC data, First Chicago's MMI and the Russell 3000 returns will appear regularly.

Other data will be used as time and space allow.

South Africa Free Index



Source: Wilshire Associates, Santa Monica, Calif.

S&P 500 with replacements: replaces a South Africa-related company with next largest company in the industry. **S&P 500 without Sullivan non-signatories**: excludes 20 companies, no replacements. **Total divestment**: eliminates all companies with South Africa involvement, no replacements.

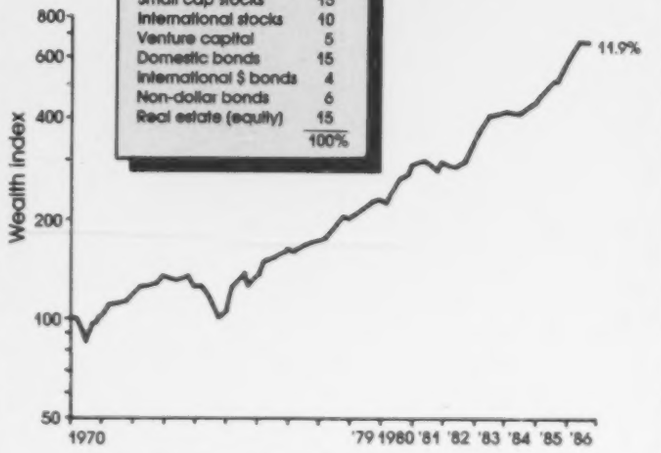
Multiple Markets Index

1970 through 1979 data reflect year-end figure

The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of eight asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.

	Weights
Large cap stocks	30%
Small cap stocks	15
International stocks	10
Venture capital	5
Domestic bonds	15
International $ bonds	4
Non-dollar bonds	6
Real estate (equity)	15
	100%

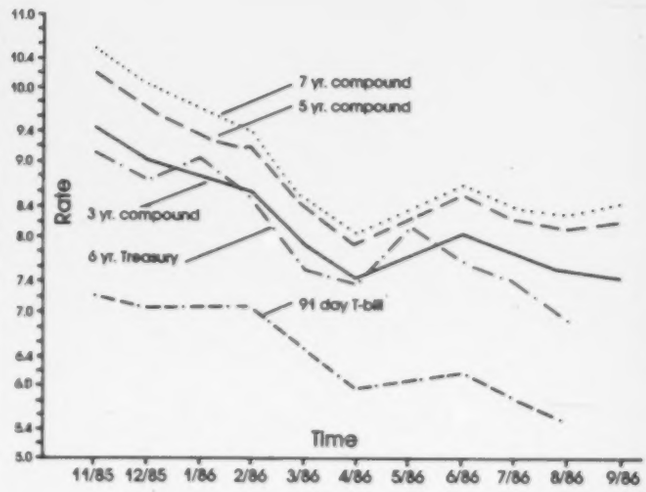
Five-year annualized return	19.2%
One-year return	28.8%
Lastest quarter	-1.3%



12/31/69 = 100 Data through 9/30/86

Source: First Chicago Investment Advisors, Chicago

William M. Mercer-Meidinger Inc. Summary of average bullet GIC data vs. market yields



Source: William M. Mercer-Meidinger Inc., Louisville, Ky.

Third quarter 1986 returns

	Russell 3000	Russell 1000	Russell 1000 by market capitalization				Russell 2000
			Large	Medium/large	Medium	Medium/small	
Financial services	-9.6%	-9.6%	-9.3%	-7.7%	-10.6%	-10.6%	-9.2%
Utilities	-0.6	-0.6	-5.3	3.6	2.9	1.1	-0.1
Technology	-8.5	-7.2	-6.3	-8.3	-8.0	-8.3	-16.8
Producer durables	-9.2	-9.0	-14.9	-8.4	-7.5	-6.8	-10.8
Materials and processing	-4.0	-3.5	-4.0	-5.9	0.3	-5.5	-7.2
Integrated oils	12.6	12.7	13.0	11.4	12.5	5.2	-11.8
Other energy	-0.6	0.5	—	4.2	-0.8	-2.0	-9.4
Consumer staples	-13.1	-13.1	-13.5	-12.7	-16.5	-6.5	-13.7
Consumer discretionary	-14.9	-14.9	-14.8	-17.5	-12.7	-13.2	-14.8
Health care	-14.9	-14.7	-15.6	-11.9	-11.2	-20.8	-16.4
Auto and transportation	-6.5	-6.0	-8.0	-4.9	-8.8	-0.4	-11.4
Total	-7.7	-7.2	-6.9	-7.9	-6.6	-7.9	-12.3

Source: Frank Russell Co., Tacoma, Wash.